

Health Benefits for Hospitals

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Hospital health benefit cost increases are higher than the national average – **14%** for hospitals versus **10.5%** for the national average.¹

Introduction

CIGNA recently conducted a national online survey of 168 hospital benefit administrators designed to uncover their perceptions of the value of health care services—specifically employee health benefits and services. The findings from our research, combined with qualitative analysis of hospital-specific industry trends, paints a challenging picture for employers in this segment.

Ironically, the industry responsible for delivering health care to the nation is, itself, struggling with its own health challenges. These, combined with external economic, legislative and demographic pressures, are negatively impacting hospitals' ability to remain competitive.

This paper will share insights into our findings. We will examine the health and productivity issues faced by hospitals and the steps they are taking to address these challenges through employee benefit design. In addition, we will explore emerging benefit strategies being employed to help hospital groups more effectively compete and succeed.

Top Benefit Challenges

Rising health care costs

Employers remain confident that they will continue to offer health benefits to employees for at least the next decade, but cite rising costs as a significant challenge:

- The average increase is 14% across all hospitals.
- Implementation of cost-sharing strategies and/or cost defrayment options did not deliver the intended results of lower-than-average cost increases.
- On average, hospital employees currently pay between 24% and 29% of their health care premium.
- 94% of workers say controlling health care costs is their most important benefits priority.²



Low employee involvement

Employers indicate that a general lack of involvement by employees is the greatest hindrance to controlling health care costs.

- “Poor Health Habits” and “Lack of Participation” are considered the biggest barriers to providing affordable health care and improving the health status of employees.
- Employers continue to offer programs such as smoking cessation, weight management and healthier food options at on-site facilities, yet the majority of employees do not participate.
- Two-thirds (66%) of hospital employee benefit managers said they lacked the adequate budget to support effective health management programs.

87.5% of health insurance claims costs are due to a person’s lifestyle.³

Ultimately, employee benefit managers will have to weigh the costs versus the benefits of their healthy workforce programs.

Perceptions of Carriers

Hospitals want carrier’s help

Hospital benefit decision-makers view carriers as integral to helping them curb health care costs by getting employees more active in their health. The vast majority said they would be comfortable with their carrier doing the following:

- Offering focused health improvement programs (e.g., disease management, wellness) with positive incentives to drive participation.
- Sending health improvement information to their participants.
- Monitoring and offering incentives to employees for healthy behaviors outside of work.
- Targeting health improvement programs to participants at risk.

CIGNA’s exclusive access to the **Trend Management System™** (TMS) lets us use health assessment and biometric data to find potential high-risk/high-cost individuals up to three years before a serious, costly health event or claim. So we can direct health improvement interventions where and when they can deliver the best cost savings and deliver the greatest impact.

In addition, hospitals expect carriers to play a strong role in overall cost containment, through efforts like:

- Negotiating effective networks
- Adjudicating claims appropriately
- Monitoring claims for improprieties
- Curtailing drug costs
- Avoiding malpractice lawsuits

Confidence level

Overall, perceptions among hospital employers relative to their benefit carrier's effectiveness are not positive:

- Only one in four feel their carrier is "highly effective" in any of the key performance metrics such as helping identify employees with higher health risks.
- 51% don't believe carriers are effective at helping employees identify risk.
- 48% don't believe carriers are effective at changing employees' behavior to reduce their risk.
- Most (58%) feel that carriers are ineffective at driving care to higher-quality physicians.

Hospitals cite the following as potential barriers to a carrier's ability to attract high-quality physicians and encourage individuals to use them:

- Lack of quantifiable information with which to evaluate "quality."
- Lack of incentives to encourage use of high-quality physicians.
- A physician reimbursement system that does not reward for quality of care.

Better Performance to Improve Hospitals' Bottom Line: ACOs and Patient-centered Medical Homes

As experts in health management, CIGNA is committed to working collaboratively with hospitals to leverage our understanding of health and improve patient care and outcomes. We are focused on becoming an industry leader in establishing Collaborative Accountable Care initiatives – a variation of the Patient-Centered Medical Home model. Through forward-thinking Accountable Care initiatives, we collaborate with hospital systems and their primary care physicians to develop coordinated processes designed to improve the quality of patient care, provide better care coordination and lower medical costs.

- CIGNA & Dartmouth-Hitchcock Clinic (NH) launched the first commercial medical home pilot in the nation (2008).
- We have several active pilots and are actively recruiting several more in 2011.
- Participating hospitals receive practice resources and are supported by CIGNA clinical programs, predictive modeling data and management reports.

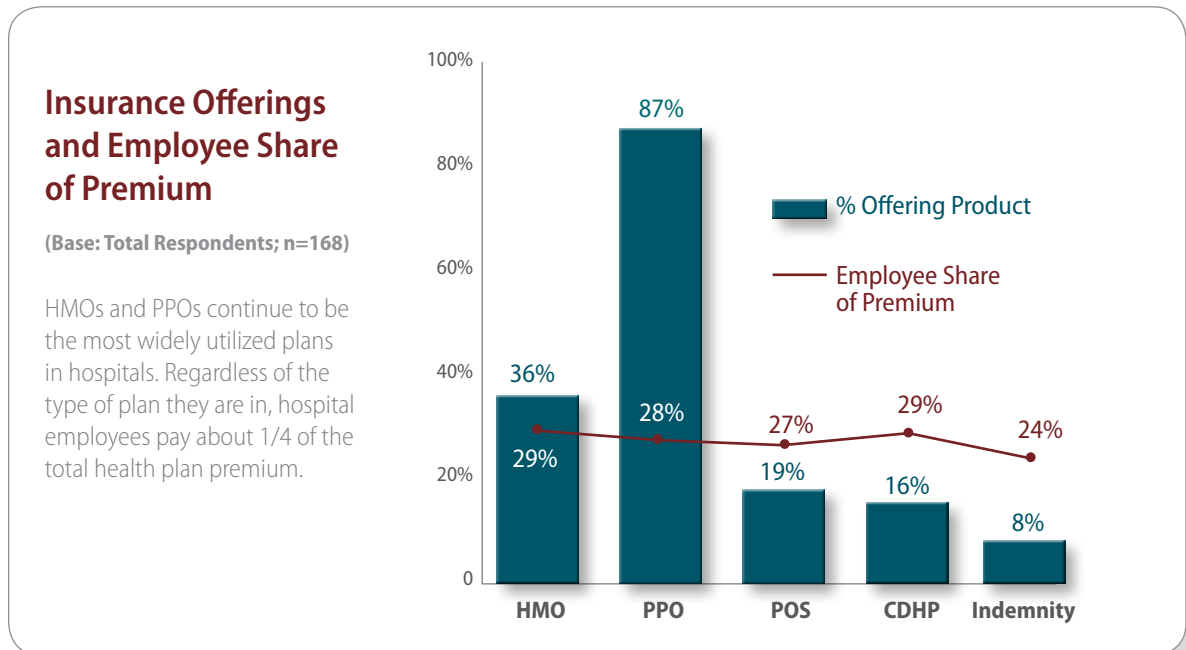
By working together and leveraging our collective strengths, CIGNA can help your facility gain a competitive edge in the marketplace. Take a look at some recent ways we've helped others:

- Dartmouth-Hitchcock Clinic is now closing gaps in care 10% better than the market.
- Cigna Medical Group, our care delivery clinic in Phoenix, has lowered average annual costs per patient by \$336.

Current Benefit Approaches

The majority of hospitals offer traditional benefit plan designs:

- 77% offer PPO plans, while about 55% also offer an HMO option and 14% offer a POS-type plan.
- 100% of hospitals offer some kind of specialty plan, such as dental, behavioral, pharmacy or vision.



However, given that poor health habits and low employee participation in provided services are the largest barrier to providing affordable health care, more and more hospitals are now offering programs designed to motivate employees to take a more active role in their health.

Specialized Networks

- Most hospitals (63%) have instituted programs with their carriers to offer employees additional discounts or benefit differentials for using “on-campus” health care professionals, facilities and services – including pharmacy.

Consumer-Driven Health Plans (CDHP)

- 16% of hospitals currently offer some kind of consumer-driven health plan, either a Health Reimbursement Account or Health Savings Account.

Wellness Programs

- 79% of hospital employers offer smoking cessation programs.
- Three out of five offer weight management programs and healthier choices at on-site food service facilities.

In addition, many hospitals have chosen to self-fund some or all of their benefit plans, another way of helping to manage their costs.

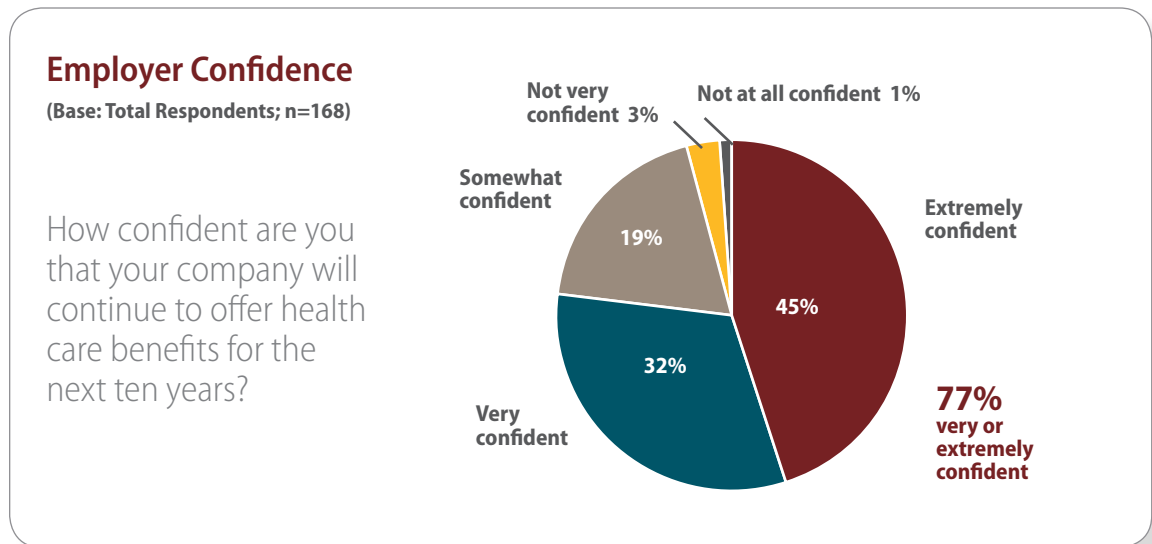
- 46% of hospitals have fully insured plans
- 41% are self-insured
- 14% have a combination of both

Emerging Benefit Trends

Rethinking benefit strategies

Health reform legislation – and its yet unknown, but far-reaching impact – has spurred many hospital administrators to rethink their current benefit strategies to find more ways to save:

- One in four hospitals expressed concern or lack of confidence that they will continue to offer benefits in the next ten years.
- Nearly three in five hospitals have already revamped their entire health care strategy or are planning on doing so within the next two years.



Many cost-shifting to save

Most new strategies implemented involve increasing employees' share of the total health care cost:

- 69% of hospitals have either increased the cost share borne by employees (and expect further increases) or are planning on doing so within the next two years.
- Hospitals have begun introducing plans with higher deductibles or copays, as well as looking to employees to assume a greater share of premium costs.
- The ability to shift costs fully to employees is limited in several hospitals due to the bargaining agreements with unionized employees.

On average, hospital employees currently pay between 24% and 29% of their current total health care premium.

Drive active participation

Hospitals feel most strongly that motivating employees to change unhealthy behaviors and participate in health improvement initiatives is key to helping lower cost. As a result, many have begun to offer incentives, education and health improvement information to drive employee participation.

- Current rate of participation in most health engagement activities is 50% or less among the majority of hospitals.

Consumer-Driven Health Plans (CDHP)

With employees that have a broad range of skills and wages, hospital benefit managers feel the need to design, administer and offer a variety of plan benefits to meet employees' differing needs.

Hospitals report having embraced or being in the process of adopting newer innovations in health benefits, such as Health Savings Accounts (HSAs) and Health Reimbursement Accounts (HRAs). With programs tied to wellness and prevention, hospitals see these as a viable way to lower costs. However, they cite several barriers to further CDHP adoption:

- Employee resistance to change
- Lack of clarity about its impact on attraction/retention of employees
- Lack of credible evidence of its impact on the use of necessary medical service
- Lack of business case about its impact on reducing costs

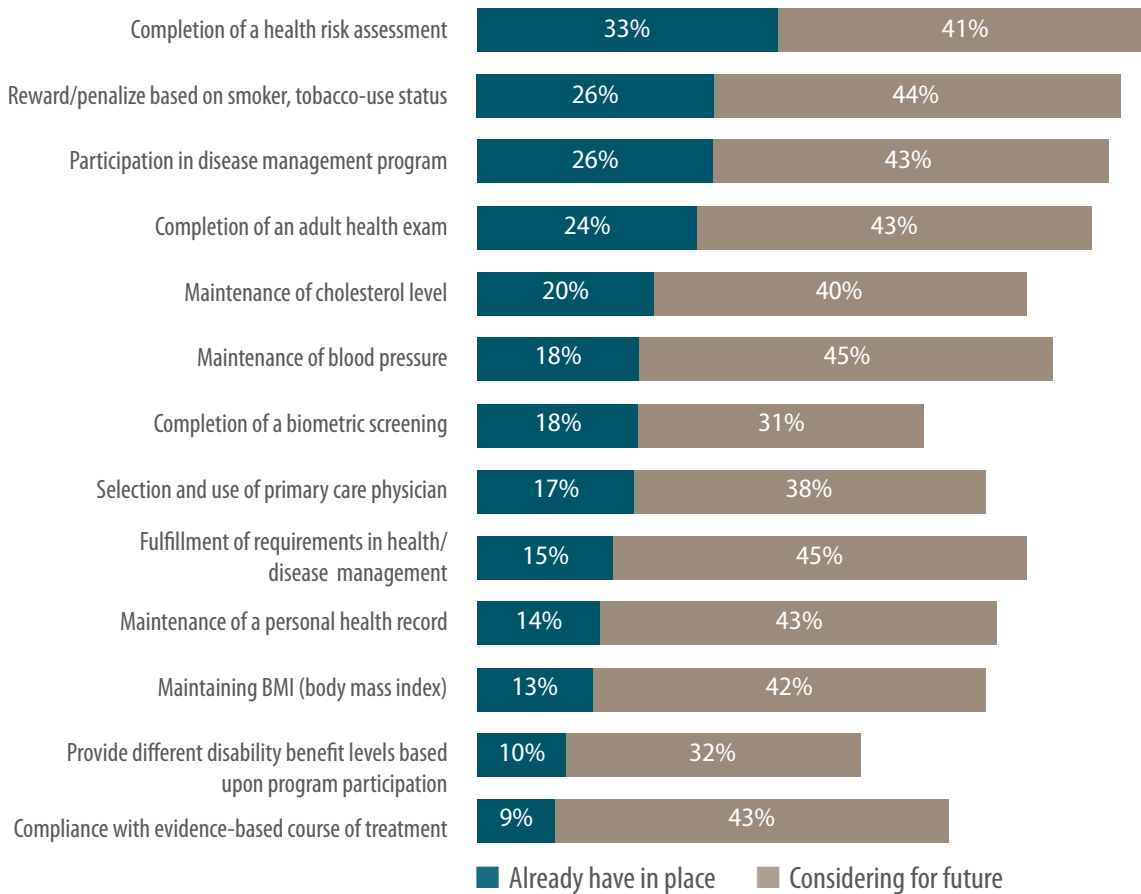
CIGNA Choice Fund® CDHP is focused on shifting behaviors – not cost – to deliver immediate and sustainable savings for our clients. Our unique design and approach motivates employees to make smarter decisions about their health and health spending that improves health and lowers cost. Our Five-Year Experience Study showed that participants in our plans had equal or better compliance with evidence-based care and no increase to their out-of-pocket expenses. On average, 40% of those offered the plan chose to participate, compared to just 12% in competitors' plans. Clients reduced their medical trend by 15% in the first year, and continued to enjoy double-digit savings year after year.

Incentives

Less than one-third of hospital employers currently have financial incentive requirements in place for select health engagement activities. However, a large proportion are considering doing so in the future.

- Some hospitals require participation in key activities designed to motivate employees to modify and maintain a healthy lifestyle in order to receive financial incentives.
- The activity most often required is completion of a health risk assessment.
- Currently, less than half offer incentives greater than \$100 for completion of a health assessment.
- At the moment, financial incentives are not enough to prompt additional participation in health engagement activities.

Hospital employee requirements to receive financial incentives



Untapped Opportunities

Integrated benefit offering

- Over a third of employers say they are looking to combine multiple employee benefit programs with a single carrier within the next two years as a way to defray costs.

CIGNA's Disability & HealthCare Connect®, our integrated medical and disability plan, creates more opportunities to engage individuals in their health. As a result, more people participate in health improvement, helping to reduce absence rates and improve return-to-work rates, compared to those in stand-alone plans.

Risk reduction

- Only about a quarter of employers are currently offering a lifestyle behavior change program to their employees, despite the fact that most recognize employees' poor health habits as a challenge to providing affordable health care.

CIGNA's **Better Health. Guaranteed.**SM uses a unique combination of risk identification, health improvement interventions and financial incentive services to create a health plan that promises to shift a targeted percentage of high/medium risk employees to medium/low risk in 14 months. If we don't, we'll invest \$1,100 in health services for every employee who doesn't reduce their risk.

Disease management

- Only one-quarter of hospitals currently offer disease management in their health plan benefit program. Almost half are considering offering a financial incentive for participation in the program.

Incentives

- Almost two-thirds of employers expect to offer an incentive to employees within the next two years, although the majority feel employees are not offered sufficient incentives.

Hospital Facts

- **35%** higher wages among general medicine and surgical hospital workers versus the national average of workers
- **62%** of hospitals are not-for-profit
- **5.9%** is the forecasted annual compounded growth rate of personal consumption expenditures for hospitals between 2008 and 2013
- **40%** higher rate of injury among hospital workers compared to national average
- **2,300 hospitals** in U.S. with 250+ employees
- **4.8 days** is the average hospital stay, down from seven in 1980
- **14 times more** outpatient visits versus hospital admissions
- **15%** of hospitals offer alternative medicine
- **60%** of hospital revenue comes from Medicare/Medicaid
- **8%** annual increase in total spending for hospital services in the U.S. in recent years

Hospital Workers at-a-Glance

Highly skilled, well-paid and female

	Hospitals	United States
Median Annual Household Income	\$51,400	\$44,334
Gender (Male/Female)	25% / 75%	49% / 51%
Average Age	45	45
Marital Status (% Married)	67%	45%
Education Level (% 4-Year College Degree and Above)	83%	40%
Union-Affiliated Workers	15%	12.5%

Research Methodology

Online interviews were conducted with hospital health insurance benefit decision-makers between September 2, 2010 and September 22, 2010. A total of 168 hospitals responded (90% general medical/surgical hospitals/systems, 5% specialty hospitals and 4% psychiatric hospitals). The study focused on hospitals that employ at least 250 people.

In addition, secondary research was conducted on the hospital industry using First Research <http://www.firstresearch.com> and Hoovers Research <http://www.hoovers.com>.

¹ "U.S. Health Care Inflation to Far Outpace Salary Increases in 2010," September 15, 2009.

² *Congressional Quarterly HealthBeat* survey of 3,000 workers, most of who work for large companies, May 2010

³ *San Diego Business Journal*, April 12, 2010